SEMPOIBAQ: NEW PLAYER COMPETING IN THE FOOD AND BEVERAGE SECTOR

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This case was written by Darwina Ahmad Arshad, Noor Afza Amran, Halimah @ Nasibah Ahmad, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Rafiq, the founder and owner of GV Raha Trading, nervously paced around his factory, wondering how he was going to meet his customers’ demand. As he gazed at his watch, it seemed like time was just ticking by ever so fast. With beads of perspiration trickling down his forehead, Rafiq realised that with his semi-manual production line, it would be near to impossible to ensure adequate production of his products. He continued to pace up and down, wondering how he could overcome this shortcoming, and hoped for nothing short of a miracle.

In addition to the slow operational problem, the company had to deal with the shelf-life of the dates milk. Since milk is a very delicate product that contains microbes and is highly sensitive to temperature, the dates milk could be easily spoiled. To overcome this problem, the dates milk must be stored in an optimum temperature chiller. Dissatisfied customers often came to return spoilt milk and this compounded the company’s already seemingly unsurmountable problems. Rafiq sighed, “It is hard to maintain the dates milk and its nutrients in good condition since we do not add any preservatives to our dates milk”. Besides, Rafiq needed to battle stiff competition in food and beverage sector especially from established rivals.

The Founder

Ahmad Rafiq bin Muda was the founder and owner of GV Raha Trading, a company that specialised in producing dates milk. The company was a small and medium enterprise (SME) based in Alor Setar, Kedah. Initially, Rafiq started this business from home, where he conceived his own recipe for Kurma Milk, which then became the main product in his company. Before he started his own company, Rafiq had worked in various organisations for sixteen years, starting as a bank executive in one of Maybank’s private branches in Penang for about one and a half years. This working experience in Maybank equipped Rafiq with the basic financial and banking knowledge for a start-up company which he envisioned opening. After his stint at Maybank, he made a job switch to enable him to accumulate diverse experiences. He took up a training executive position in a government-linked company (GLC), i.e., Felda Global Venture (FGV) at its branch in Kedah for about nine years. In FGV, he was assigned to various units which helped him to enrich his business knowledge. After the nine years with FGV, he moved to Kumpulan Ladang Perbadanan Kedah (KLPK), where he was assigned to the business development unit. These diverse experiences, ranging from banking and finance knowledge to management skills and business and development as well as networking, made him confident enough to realise he was ready to venture into his own business, a dream that he had held for the longest time. Even during his tertiary education, Rafiq showed his passion for entrepreneurship. The grueling process he had to go through to attain his bachelor’s degree did not stop him from indulging in part-time jobs and in running a small business.

Rafiq started his business by opening up a fresh food mart in front of the Sultanah Bahiyah Hospital together with his partner, who he became acquainted with during his working days in FGV. Due to unavoidable circumstances and location problem, the business could not survive, thus forcing it to be closed down. The failure of his first business did not deter Rafiq from continuing to dream big. He knew that failure is an opportunity to learn and grow and some of the experiences, particularly the bad ones, often times turned out to be blessings in disguise.

This unbridled entrepreneurial passion led him to come up with his own unique recipe for Kurma Milk. He had good feedback from his friends who were the lucky ones to taste the milk, and this increased his self-confidence to start-up his own business. He started with a small amount of capital which only allowed 20 bottles of Kurma Milk to be produced daily in his own house. With the increasing demand for Kurma Milk, he knew that he could no longer continue to produce from home and found a
proper premise to continue his production on a larger scale. Operating in the new shop, he managed to increase his production to 300 bottles of Kurma Milk per day. After a year, the demand continued to grow and production was increased. This increased demand and production compelled Rafiq to find another strategic place to run his business. Whilst moving from place to place to look for an appropriate place in the vicinity of Alor Setar, he bumped into Mr. Agus who was a Majlis Amanah Rakyat (MARA) officer. It was indeed a stroke of luck for Rafiq to meet Mr. Agus as after listening to his plight, Mr. Agus offered Rafiq a place at the GiatMara building owned by MARA.

Rafiq was grateful for the opportunity to rent a new premise from MARA at reasonable rent. As the premise was located in the MARA building, Rafiq also got to enjoy security services at no additional charge for him. However, Rafiq could not insure the shop or install CCTV due to lack of financial resources. As with all new businesses, and Rafiq’s being less than five years, shortage of financial resources was common and Rafiq knew he had to double his efforts to succeed.

At the new premise, Rafiq managed to produce 1,000 bottles of Kurma Milk a day. With steely determination and perseverance, he hoped to expand his products and market horizontally to meet his short-term plan as well his long-term goal of becoming a successful entrepreneur. Rafiq was happy that “strong support from his family, friends and the government could further boost his motivation and morale to succeed”.

As the manager of his company, Rafiq’s management style was simple but effective. His years of work experience had equipped him with the knowledge that people or employees are an organization’s greatest asset and giving the employees a conducive work environment and a sense of belonging would be the keys to successful performance. Rafiq was very down to earth and hands-on, and often, came down to the factory floor to chat with his staff. Mingling with the staff allowed the sharing of experiences, and also gave Rafiq the opportunity to better understand each of his employees individually. In this way, he could assess their strengths and weaknesses and maximize on individual capabilities towards the best outcomes for his company. Eventually, staff learnt to make decisions and ceased to be totally dependent on Rafiq. This was truly a win-win situation for both Rafiq and his staff.

**Company Background**

GV Raha Trading was established on 20 December 2015 in Jalan Pegawai, Taman Malik, 05050 Alor Setar, Kedah. The core business of GV Raha Trading was to produce healthy energy drinks using dates and milk. GV Raha Trading was a new entrant in the food and beverage sector. The company produced dates milk (Kurma Milk, Chocca Milk and Kurma Latte) under the well-known brand name, SempoiBaq. The company managed a maximum production of 1,000 bottles of dates milk per day, by running a two-time production. A one-time production was only able to produce about 500 bottles of dates milk. Since the seeds from the dates were removed manually, it slowed down operations and limited the number of bottles that could be produced on a daily basis. This meant that the company was struggling to meet the demand for the milk, especially during peak seasons, such as during Ramadhan.

The company started with a small capital of RM35.00 to produce Kurma Milk. After getting good reviews and positive feedback from his friends and family on the Kurma Milk, Rafiq increased his production from 20 to 300 bottles of Kurma Milk per day. After three years, he increased his capital to RM30,000 and moved to a new premise located at the GiatMara building at the Mergong Industrial Park, Alor Setar. After a few months of operations in the new location, he successfully obtained a
loan of RM 100,000 from MARA. He used this money to improve the production floor plan and purchased semi-automatic production processor machines and a van for transportation and delivery services.

The company had five staff and each staff member was assigned specific job functions in order to achieve the company’s goals. Two staff were involved in production, two were responsible for sales and delivery and a newly appointed staff managed all matters related to marketing. The staff responsible for sales was also responsible for product delivery. The organization structure is as depicted in Figure 1.

![Figure 1: GV Raha Trading Organization Structure](image)

Initially, the staff received their salary on a daily basis, but after a period of time, their salaries were paid monthly. Usually a six-month period could determine whether or not an employee was actually serious in working for the company. Some employees only worked for a short period. According to Rafiq, “some staff expect high pay, but I only operate a small business, and thus, I cannot afford to pay high salary to my staff. The minimum salary that I can offer is only RM1,100 per month”, which complied with the Malaysian government’s minimum wage policy.

Rafiq was very fortunate to have two loyal staff working in the production line since the first year of business operations and both were degree holders. In addition to the salary, Rafiq often rewarded his staff. For example, if the sales for a given month exceeded the targeted amount, Rafiq would make sure the staff were given more pay for the month based on a certain percentage. Normally, Rafiq shared the profit made equitably with all his staff. This was usually during the month of Ramadhan. Besides more pay, Rafiq also gave a bonus to his staff on an annual basis, which was paid during Ramadhan so that they could use the money for their Hari Raya festivities. Rafiq also had plans to give an annual salary increment if his business did well financially.

The annual leave for the staff was 18 days a year and staff were entitled to 14 days sick leave. The normal working hours were from 9 am to 5pm. However, sometimes staff had to work overtime, depending on the demand for the products. The production staff were given the key to the business premise so that they could continue working whenever there was a need although he was not around.
Under the business model engaged in by GV Raha Trading, 40 agents were appointed to market the products. Each agent was paid a commission based on sales. Almost 95% of the agents were part-timers, and therefore, it was quite difficult to get their full commitment to market the products. Besides this lack of commitment, Rafiq had to skillfully deal with agents who asked for a higher commission.

**The Sempoibaq Products**

In the 21st century, healthy and energy products were amongst the most demanding products for consumers. Rafiq stressed "people nowadays are concerned on healthy living; therefore most consumers are trying hard to consume healthy food and beverages". This was the main reason why GV Raha Trading was interested to explore into healthy and energy drinks business. Raha Trading began its business with *Kurma* Milk. After several years, Rafiq introduced two more products, i.e., *Kurma* Latte and *Chocca* Milk. GV Raha's core business was to use 100% organic ingredients in its production without the addition of any preservatives and chemical flavouring. This method of production rendered the company's products not only as a very healthy drink option, but also very unique.

The following were the products of GV Raha Trading:

**Kurma Milk**

*Kurma* Milk was introduced in 2015. It was a combination of fresh cow’s milk and pure blended dates. The company used GoodDay’s fresh cow’s milk because it could blend well with the dates, producing a very flavourful milk. The dates were a specific type of dates only available at one of the well-known markets located in Kedah. According to Rafiq, these dates were the most suitable because they were neither too dry nor too wet; besides, it had a reasonably sweet taste, which was just nice to be used to make *Kurma* Milk.
Chocca Milk

Chocca Milk was introduced in January 2018. It was made from a secret recipe by combining chocolate powder, cocoa powder, almonds, dates and Fernleaf’s milk powder. The combination of the natural buttery flavour of almonds with the unique texture of chocolate and cocoa powder resulted in tasty and flavourful Chocca Milk.

Kurma Latte

Kurma Latte was the most unique product of GV Raha Trading. It was introduced in October 2017. It was special because although the name seemed to imply it was coffee-based, it did not contain any caffeine. However, it had a coffee taste that came from the ground and roasted date seeds. To make Kurma latte, the date seeds were processed and converted to powder, which produced an aroma, uniquely similar to ground and roasted coffee beans. In fact, it turned out to be a more delicious and healthier drink because the dates contained nutrients that were very beneficial to health compared to other latte drinks. According to Rafiq, creamer is one of the ingredients to produce any latte product, and accordingly, creamer was one of the many ingredients used to produce the delicious Kurma Latte.

To produce these three kinds of dates milk (Kurma Milk, Chocca Milk and Kurma Latte), the date seeds were first removed and only the remaining flesh was used in the production process. The dates were soaked for a few hours, blended and then filtrated a few times to get the juice, which was then boiled together with the other ingredients at a specific temperature to deactivate the bacteria and microbes. The product was then poured into High Density Polyethylene (HDPE) bottles to cater to the high temperature and directly stored in the refrigerators at the right temperature. The products were sold at RM3.50 for a 250ml bottle. Any combo purchase of any of the three milk flavours was sold at RM10. The 500ml bottle was sold at RM6.50. A combo purchase of any of the three milk flavours was priced at RM18.

Business Operations and Procurement

Rafiq was about to deliver the dates milk to his customers. On that day, his routine was interrupted when the phone rang. A glance at his phone screen told him that one of his production staff was at the other end. Rafiq instantly knew that there might be some operational problems and he was right. The caller told him that the UHT milk that was ordered had not been delivered as scheduled. Rafiq quickly contacted the supplier to reconfirm the order and delivery of the milk.

The company used two types of milk: GoodDay UHT milk and Fernleaf powder milk. GoodDay UHT milk was used to make Kurma Latte and Kurma Milk, while, Fernleaf powder milk was used for making Chocca Milk. GoodDay UHT milk was the preferred milk because of its freshness. Rafiq had tested all the milk types in the market and to him, the best milk for making healthy drinks was the GoodDay milk. This UHT milk was obtained directly from the GoodDay factory in Penang, which was then delivered directly to Rafiq’s shop as he was the third largest customer in Alor Setar after TESCO and MYDIN supermarkets. Rafiq usually ordered around 100 cartoons or over 1,000 liters of milk. As for Fernleaf powder milk, it was used for making Chocca Milk as it produced a great taste when blended with other ingredients. Usually, Rafiq ordered 12 boxes of Fernleaf powder milk from a supplier in Alor Setar. He did not face difficulties in obtaining the milk supplies.
Dates was an important ingredient in making dates milk products. Rafiq purchased the dates from a supplier in Alor Setar who imported the dates from the United Arab Emirates (UAE). Rafiq was very quality conscious and selected the raw materials, including dates, very carefully. He only used ‘Khalaaf’ dates because this brand was of good quality and did not contain any added sugar. Moreover, the dates were very pleasantly fragrant, with the texture being neither too soft nor too hard, and aromatic when blended with other ingredients. This type of dates was not widely available in the market. The market price of the dates per kilogram was around RM100. However, as a regular customer, Rafiq bought the dates at a special price of RM70 per kilogram. Normally, he ordered around 100kg of dates per order and kept the dates in the fridge. In terms of its supply, Rafiq mentioned that he sometimes did experience a shortage of dates. Other ingredients, such as chocolate powder, cocoa powder, almonds, creamer and brown sugar, were easily obtained from different suppliers in Alor Setar. Rafiq stored all the raw materials in a special storage room, where there was a fridge to keep the dates and milk before they were processed into milk products.

For the packaging, Rafiq used HDPE bottles at 250ml and 500ml. The HDPE bottles could cater to high temperatures of up to 70 degrees Celsius. Normally, the HDPE bottles were purchased in bulk of 20,000 units per order, from a supplier in Alor Setar. These bottles cost 40 cents (250ml) and 50 cents (500ml) per bottle. As for the label for each product, the staff printed and glued it to the bottles themselves.

GV Raha Trading operated six days per week except on Friday. Usually, the machines were first run in the morning. Then, the machines were cleaned and sterilized for four hours, after which, the machines restarted operations. On average, the production per day was 200 to 300 bottles, although the maximum capacity was 1,000 bottles per day. A huge freezer was used to store the finished goods before they were delivered to customers or agents. The products could last for two weeks if refrigerated but for three months if stored in the freezer.

Customers and agents ordered the products by contacting the marketing staff or Rafiq. Then the staff would distribute the products by van to areas, such as Jitra, Changlun, Alor Setar, Pendang, Yan and Sungai Petani. The staff were required to record the amount produced and the amount distributed to customers and agents. A total of 46 shops around Kedah were appointed as agents. GV Raha Trading distributed the products once a week to the agents. Any damaged product would be replaced. Every shop received 12 to 15 bottles and after three or four days, the marketing staff would call the agent to find out how many bottles were still unsold. Rafiq also did after-sales service to all agents' shops. His staff made sure that the chiller or freezer in the shops had an appropriate temperature, so that the drinks would not be spoilt.

**Finances**

As a new entrant to the food and beverage market, Rafiq said his business was still struggling to maintain the cash flow and to pay business expenses. For now, Rafiq managed all matters relating to finance and accounts of the business. As a business graduate and the banking and financial knowledge he had acquired, he did not encounter too many difficulties in managing the company’s financial affairs. To keep himself updated and current with changes in the business scenario, he attended many finance and accounting courses. One staff member also assisted him, especially in the recording processes. Currently, Rafiq used Microsoft Excel for recording and conducting financial analysis. In future, Rafiq planned to use accounting software so as to ensure that he would be able to manage the company’s financial matters more efficiently.
The financial statements that Rafiq prepared were basically for his own use and reference. Rafiq claimed that, “my business is doing well and it has grown steadily since 2015. Although I am struggling to maintain the cash flow, I feel this is normal, especially for new businesses like mine”. As any business faces teething problems at the initial stages, Rafiq focused more on matters related to costing. In the second month of operations, the demand for Kurma Milk was extremely good and encouraging because it was during the fasting month.

Two male staff were in charge of sales. Their main function was to record orders and delivery of products. Receipt books were given to the staff so that once cash was received, receipts could be issued to agents or customers accordingly. Sales proceeds collected from the agents were delivered in cash to Rafiq or deposited directly into his account. Rafiq kept some of the money in the bank, while the remaining money was used for business operations.

In the early stages, Rafiq experienced losses when about 51 percent of the products were returned due to damage. Rafiq realized that if something was not done, he would continue to make losses as his company produced perishable products and lack of care would be a major risk that Rafiq would have to face. So, Rafiq took the initiative to educate the agents to store the products at the right temperature and from October 2018, Rafiq’s losses dropped significantly to 20 percent.

**Marketing, Sales and Services**

One of Rafiq’s main challenges was the competition he had to face. “About 70 percent of the business resources are needed for marketing of the products, absorbing a big chunk of the budget every year” said Rafiq. Although GV Raha Trading was still a new company in the market, it faced stiff competition from other similar companies, like FarmFresh, Summerfield, and GoodDay. Without effective marketing techniques, Rafiq’s products would not be able to attract customers and sales would remain stagnant. To overcome this daunting challenge, Rafiq planned to hire a special consultant for the marketing tasks, when more financial resources became available.

GV Raha Trading’s journey was long and winding. In the beginning, a word-of-mouth campaign and positive reviews by friends were among the marketing strategies applied to boost sales. Later, social media, such as Facebook and Instagram became handy and quick marketing techniques for Rafiq. He made videos of the products and uploaded them together with photos and customers’ testimonials. Rafiq also used paid reviews through insta-famous via Instagram. Besides, during exhibitions and at booths in the shops of some agents, free sample testing was done in addition to promoting the products over KedahFM radio.

Rafiq negotiated with several supermarkets/hypermarkets in his attempt to market his products more widely. However, the high terms of payment set by these supermarkets/hypermarkets was a setback for Rafiq due to his own financial constraints. For example, a RM5,000 registration fee was required for entering his products into the hypermarket and an additional RM1,500 was required to place the products on the shelf. A promoter had to be appointed or the supplier could use the supermarket promoter but with an additional charge. Cash could only be collected after three months of sales. All these conditions deterred Rafiq as his business’ liquidity was still low and he had to shelf his plans to market his products to supermarkets and hypermarkets.

**Competition**
One evening in 2015, Rafiq walked along the dairy section in Tesco Hypermarket. There, he chanced upon many fresh milk product brands, but none of those offered dates milk. The only brand that sold dates-flavoured fresh milk was Farm Fresh. Yet, the situation was different in 2019, established brands such as GoodDay, Summerfield, Dutch Lady, and Marigold had widely produced and offered dates milk in the market.

GV Raha Trading was another dairy product brand that sold dates milk products. In fact, their varieties of dates milk products such as Chocca Milk and Kurma Latte were not offered by any of the other brands, even though both these products were unique with Chocca milk contained purely dates, almonds and chocolate extract and Kurma latte was made from dates seed. In terms of pricing, the dates milk products were relatively competitive in the market. GV Raha Trading offered a slightly higher price at RM6.50 per 500 ml, over other brands because the company did not do mass produce like other established competitors. Most of the rivals of GV Raha Trading were established producers of milk-based products with dates milk drink being one of their flavoured milk category in their product line. Farm Fresh offered Susu Segar Kurma with the price of RM 7.39 for 700ml in the retail shops. The company also offered Café Latte and premium chocolate milk, quite similar to GV Raha’s Kurma Latte and Chocca Milk. However, both products were not dates-base.

The other main competitors were GoodDay and Summerfield. GoodDay was not only its rival but also the main supplier of fresh milk for GV Raha. GoodDay introduced its Kurma Flavored UHT milk in 2018, priced at RM8.20 per liter; whereas Summerfield offered Susu Kurma with fresh milk at RM7.29 per 700 ml in early 2019. Then, the company launched Kurma & Hazelnut Yogurt drink and Dates yogurt drink in April 2019. The following competitors were Marigold and Dutch Lady. These companies also offered dates milk products priced ranging from RM5.74 to RM7.29 per liter. All of these main competitors were offered chocolate flavored milk and latte drinks, but it did not contain any dates extract.

Rafiq knew that other healthy drinks such as yogurt and fruit juice were another good opportunity to explore in the beverage sector. Rafiq said “I plan to sell yogurt drinks and fruit juice as another product extension in the future because both healthy drinks show an increasing demand from the customers”. Some competitors such as Summerfield seized this opportunity, making it as the first company to sell yogurt drinks with both dates and hazelnut. Like Marigold, the company had introduced many juice products instead of dairy drinks. Juice drinks were among the healthiest drinks that people always wanted; therefore, the demand was incredibly attractive.

In certain circumstances, if the company failed to fit with the business environment, it would harm the business survival. For instance, the business players in food and beverage sector should follow the guidelines made by government on soda tax. The purpose of imposing such tax was to control the consumption on sugary food and drink among Malaysians. The company would charge RM0.40 per liter on all types of beverages that exceeded 5 grams added sugar per 100ml, except for fruit juice-based products in which would be charged if contained more than 12 grams added sugar per 100ml.

However, Rafiq felt released as he claimed that the best thing of Sempoibaq products was the use of natural ingredients with very little added sugar; and no added preservatives and flavour compared to some other brands in the market. Furthermore, Sempoibaq dates milk used natural dates concentrate which has better nutritional values that differentiate the products exclusivity. As compared to other brands, only Summerfield used dates concentrated but others had used real dates extract which was known to have less nutrition in their dates milk range.
As the new entrant in the industry, Rafiq was aware of the challenges he had to face to compete with the existing rivals as well as from the potential players. At any time, the rivals could easily flood the marketplace due to low level of entry barriers. Rafiq knew he needed to proactively plan for his business growth and sustainability; and at the same time to respond to not only competitive sellers and substitute products in the market but also several other external forces that create many opportunities in the future.

**Future Direction**

It was raining heavily outside the office. Rafiq wondered whether he could overcome his current business problems within this short time. He also had many plans for his business, but could he achieve all his dreams?

Rafiq planned to expand his production and penetrate the market by increased the number of agents to 120 agents. He also planned to produce almond dates milk, fresh goat milk, yogurt drink and fruit juice drinks. Rafiq also planned to improve the packaging of his products. His marketing knowledge made him aware that, “high quality and attractive packaging could enhance and boost my products so that I can compete with established products available in the same market segment”. He planned to use the retort method for packaging as done by existing beverage producers to ensure that his products were at least on par with those offered by the competitors, if not better. In addition, Rafiq had the intention to apply for a loan from MARA, specifically to purchase chiller machines. These chiller machines, costing approximately RM1,000 each, would be used for storing the products at the agents’ shops.

Rafiq was in the process of obtaining the JAKIM Halal Certificate and MeSTI Certification from the Ministry of Health (MoH) Malaysia. These certifications were important because Rafiq wanted his customers in particular, and the public, in general, to be confident of the goodness of the dates milk products. Moreover, Rafiq planned to transform his business into a private limited company and move into the corporate world. He hoped to expand his business by securing financial assistance from any relevant government agency. Rafiq had always envisioned becoming a world-class entrepreneur and all the problems he was facing were not failures but steppingstones of experience to success. He hoped to achieve his goal of becoming a market leader in beverage products with an instantly recognizable and unique corporate image. In the long-term, by using the Business-to-Business (B2B) model, Rafiq hoped all his plans would materialize and his products would be marketed internationally and become the first choice in the arena of healthy beverages.